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SUBJECT: Argentina Hosts Brazil, Bolivia Presidents on Looming
Regional Energy Shortages

Ref: 07 Buenos Aires 1456

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Summary

¶1. (SBU) A bilateral Argentine/Brazil presidential summit in Buenos Aires February 22 and a follow-on February 23 trilateral Argentine/Brazil/Bolivia presidential summit focused largely on regional energy coordination. Bolivia's President Morales acknowledged his country's near-term inability to meet contractual gas supplies to Argentina or to Brazil, and Brazilian officials publicly rejected a reported request by Cristina Fernandez de Kirchner that Brazil cede to Argentina a small share of the gas it receives from Bolivia to help Argentina meet anticipated high domestic demand this coming (austral) winter. The GOA is likely to respond with pressure on Petrobras's many Argentine interests. Local analysts interpret the high-level -- and highly publicized -- Brazilian rejection of Argentina's request as evidence that President Kirchner is being poorly staffed and advised on international diplomatic engagement. Brazil and Argentina also signed 17 bilateral accords, including a Brazilian proposal to establish a regional defense cooperation working group (Septel), nuclear cooperation (including the structuring of "binational" entities to enrich uranium, construct small civilian nuclear reactors, and the eventual joint construction of a nuclear power submarine - septel), science cooperation, civil aviation, broad economic cooperation, and broad civilian rights accords. End Summary.

Argentine-Brazil Bilateral Summit: Energy and
Cooperation Agreements

¶2. (SBU) The Argentina/Brazil bilateral summit was President Lula's first visit to Argentina following Cristina Fernandez de Kirchner's (CFK's) December 10 inauguration. The February 22 bilateral agenda included one-on-one meetings between the Presidents, expanded meetings with their foreign and energy ministers, an address by

President Lula to a joint session of Parliament and a meeting between Lula and the head of the Argentine Supreme Court. While the media focus was on energy coordination and CFK's request (see para. 6) that Brazil cede a portion of its Bolivian gas supplies to Argentina, a total of 17 bilateral accords were signed, according to a GoA communique. During CFK's last visit to Brazil, she and Lula had asked their ministers to provide them with concrete deliverables for this first summit meeting.

13. (SBU) These accords included a Brazilian proposal to establish a regional defense cooperation working group (Septel); nuclear cooperation (including the structuring of "binational" entities to enrich uranium, construct small civilian nuclear reactors, and the eventual joint construction of a nuclear power submarine - septel); science cooperation (including the signing of a bilateral pact for the construction and launch of a joint ocean observation satellite and the formation of a binational bio-pharmacology company); civil aviation cooperation (including the possible manufacture and maintenance of Brazilian Embraer aircraft in Argentina and the sale of an Embraer jet for use by the Argentine Presidency); broad economic cooperation (including on macro-economic target coordination and regular WTO policy coordination, bilateral trade account settlement in local currency, and cooperation between Brazilian state-owned development bank BNDES and Argentina's state-owned National Bank, building bridges over the Uruguay river and binational railroad integration); and broad civil rights accords (including joint commitments to promote and protect human, civil and political rights and the creation of a high level coordination group to ensure free circulation between the countries).

Trilateral Summit: No Additional Bolivian Gas
for Argentina in Near Term

14. (SBU) The February 23 Argentina/Brazil/Bolivia trilateral agenda focused on Bolivian gas supplies. Burgeoning Brazilian and Argentine demand for Bolivian gas remained the central theme of bilateral and trilateral meetings. In Argentina, low utilities prices have deterred foreign investment needed to boost domestic gas production, and the GoA has relied on top-up imports from Bolivia. But Bolivia itself has failed to boost its production since nationalizing its gas industry in 2006. Local media reports that President Morales and his Energy Minister Carlos Villegas made clear at the February 23 trilateral summit that Bolivia cannot meet ambitious export commitments to Argentina or to Brazil until 2009 at the earliest. In an airport interview on his February 23 departure from Argentina, President Lula said: "After so long without significant investment in Bolivia, investment (in new Bolivian gas production capacity) by Petrobras and by the GoB itself has begun. In the medium term, Bolivia will be able to meet the demands of Argentina and Brazil, and we will not have problems." Last week, Brazil's Petrobras announced that it would boost its investments in its Bolivian subsidiary by 33%, from US\$ 750 million in 2007 to US\$ 1 billion in 2008.

15. (SBU) Bolivia currently produces roughly 40-42 million cubic meters of natural gas per day (MCMD), of which roughly 6-7 MCMD is consumed domestically. Bolivia has contracts to supply up to 30 million MCMD to Brazil and 7.7 MCMD to Argentina. But at present, Bolivia is supplying only about 27 MCMD to Brazil and 3-4 MCMD to Argentina. As the southern hemisphere winter approaches, demand from both is expected to surge. Argentina currently produces roughly 51 MCMD of gas domestically. Shortfalls of Bolivian gas supplies during the last austral winter forced Argentina to import expensive diesel fuel to power generators and to purchase expensive electricity from Brazil (reftel). Beyond Bolivia's currently unmet contractual commitment to export 7.7 MCMD to Argentina, a 2006 Argentine/Bolivia bilateral agreement to construct a second gas pipeline between the nations was to allow an increase in gas imports to the 27 MCMD level by 2010. This project has been significantly delayed on both the Argentine and Bolivian sides, and local energy analysts do not expect the pipeline to be completed until 2011. These same analysts question whether Bolivia will be able to expand production sufficiently in the next four years to fill this new

pipeline.

CFK Asks Lula to Cede Gas, Lula Offers Electricity

¶6. (SBU) According to statements made to the media by Brazilian Energy Minister Lobao, Argentine President Cristina Fernandez de Kirchner (CFK) asked during their bilateral summit that Brazil cede to Argentina one MCMD of the 30 MCMD Brazil has contracted to receive from Bolivian order to help Argentina meet anticipated high domestic demand this coming (austral) winter. Lobos said that Brazil could not meet this request, but instead offered to export some 200 megawatts (MW) per day of electricity to Argentina, supposedly the electrical equivalent of this amount of gas. (During the last austral winter, Argentina imported up to 1,100 MW per day of premium-priced electricity from Brazil to meet peak demand loads.) Brazilian Foreign Minister Celso Amorim told the media that Brazil was happy to help Argentina, but within limits. "We'll do everything we can to help Argentina, as long as we don't create a crisis in Brazil in the process. What Brazil can't do is create a rationing problem in one country to help avoid a rationing problem in another." Petrobras President Sergio Gabrielli was less diplomatic, saying to Argentine media February 23 that Brazil will "not cede even one molecule" of gas to Argentina. And speaking to press on his February 23 departure from Buenos Aires, President Lula said: "Energy is not produced by gas alone. What is important is to have a quantity of MWs available from Brazil to those countries that need it, like Argentina and Uruguay. And, at times, we will need (energy) from Argentina. So, a policy of solidarity is extremely important."

Argentina, Brazil, Bolivia Form Energy Working Group

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¶7. (SBU) Following Argentina's unsuccessful attempt to gain a commitment for additional gas supplies, the summit communique noted an agreement that Energy Ministers of Argentina, Brazil, and Bolivia would meet shortly to establish a coordination group to "explore the best short- and long-term alternatives" to guarantee adequate supplies of Bolivian gas to Argentina and Brazil. A statement issued later by the GoA Foreign Ministry said that GoA Planning Minister de Vido, Brazilian Minister of Energy and Mines Edson Lobao, and Bolivian Minister of Hydrocarbons Carlos Villegas are to meet within 10 days in La Paz to "analyze the evolution and respective demands for energy and to coordinate appropriate measures" and "to evaluate the growth in production and (energy) infrastructure so that the development of (all three nations') energy sectors can accompany economic growth."

Comment

¶8. (SBU) Regional energy politics are heating up. Beyond the summit's talk of regional energy "solidarity" and the announcement of (yet another) regional energy coordination meeting of energy ministers, the bottom line is that Bolivia won't be producing adequate levels of gas to meet growing Argentine and Brazilian demand any time soon. Brazil's offer to provide Argentina up to 200 MW of expensive electricity this coming austral winter -- less than 20% of the electricity Brazil supplied to Argentina at the height of last winter's shortages -- was certainly disappointing to GoA officials. And the potential recurrence of domestic energy shortages of the same magnitude as Argentina experienced last austral winter raises a question mark on the performance of Argentina's industrial sector in 2008. Even though the GoA denies that last year's energy shortages caused a slowdown of economic growth, GoA statistical data does show a sharp decline in the industrial production index in mid-2007, when the industrial sector faced severe gas and electricity constraints. The GoA argues that subsequent production made up for the temporary shortages.

¶9. (SBU) Local analysts interpret the high level -- and highly

publicized -- Brazilian rejection of Argentina's request as evidence that President Kirchner is being poorly staffed and advised on regional diplomatic engagement. Kirchner's advisors encouraged her to proceed with a public plea for gas despite clear signs from the Brazilians that the answer would be no. But Embassy energy sector contacts indicate that the GoA has cards to play to influence Brazil to be more forthcoming, including the threat of cutting natural gas supplies to Brazilian state oil company Petrobras's Argentine petrochemical plants. (It appears that the GOA is wasting no time in exerting pressure; a headline in the February 25 edition of a daily linked to the GOA's Planning Minister announces a GOA probe into Petrobras investment operations in Argentina.) Petrobras' strong interest in acquiring a portion of Exxon's refinery and service station assets in Argentina also offers the GoA additional leverage in regional energy diplomacy. The GoA continues to publicly state that new domestic gas discoveries and new domestic generating capacity coming on line will see Argentina comfortably through the coming austral winter's heating season. Behind the scenes, however, the GoA is certain to spare no efforts to secure additional Brazilian and Bolivian energy resources. A cold winter in Argentina will undoubtedly raise political temperatures here.

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